National Council
SOCIAL SECURITY MANAGEMENT ASSOCIATIONS, INC.
P.O. Box 2067, Minot, ND 58702

TESTIMONY OF STEPHEN BAUER

PRESIDENT

NATIONAL COUNCIL

SOCIAL SECURITY MANAGEMENT ASSOCIATIONS, INC.

BEFORE THE

CIVIL SERVICE, POST OFFICE, AND GENERAL SERVICES SUBCOMMITTEE

OF THE

GOVERNMENTAL AFFAIRS COMMITTEE

U. S. SENATE

SEPTEMBER 10, 1985

Mr. Chairman, we thank you for the opportunity to testify on S1527, a proposal to establish a new civil service retirement system for those employees who entered the federal service after January 1st, 1984.

We lack the expertise to examine the actuarial projections of the proposed legislation, and thus will only make comments concerning certain principals that the bill establishes for the new retirement system.

The bill would provide a very high replacement level for lower grade employees who retire at age 62 with 30 years service. If the employee was to participate fully in the CAP program portion of the bill, the replacement rate at retirement at age 62 with 30 years of service for a $20,000 per year employee would be approximately 69 percent. For a higher paid employee, whose average salary was approximately $48,000 a year, the replacement rate if fully participating in the CAP program, would be approximately 55 percent. While the replacement rate would vary depending upon the amount of participation in the CAP program, the projected replacement rate of salary would still be substantially in excess of 50 percent for lower grade employees and could be substantially less than 50 percent for the higher paid employees. This further increases the problem of retention in management where the comparability gap increases with grade. Managers would support disporportionately in compensation, both while working and in retirement.

We do not object to the replacement rate for lower grade employees being as high as is projected in this plan. However, we believe that the salary replacement level should be the same for all employees at all grade levels. This could be achieved under the defined benefit portion of the plan by providing employees at higher grade levels, for example, GS-11 or above, with additional contributions from the employer. It could also be accomplished by providing for higher matching contributions from the government for contributions made to the CAP program by higher grade employees. Lacking the expertise to propose a solution to this dilemma, we request that the Congressional Research Service make the calculations and evaluate the cost of providing the same replacement rates for higher grade employees as those that will be received by lower graded employees. This is imperative in order to retain senior managers and executives in government. Our main concern as federal managers is that recruitment and retention problems will increase and we will be rendered unable to perform the functions entrusted to the Federal Government.

If the Congress decides that there should be any kind of offset for Social Security credit on retirement annuities, we strongly recommend that such offset only take into consideration the Social Security benefits earned during federal service. For short term federal employees, to offset Social Security earned in other employment against defined benefit plan annuities would be totally unfair, and could reduce their annuity to nearly nothing.

We strongly recommend that retirement be made available without reduction at age 55 with 30 years of service. We recognize that on average federal employees work until nearly 60 years of age, which is similar to the private sector. However, few employees either in government or out of government spend 30 years with a single employer. Those who do, should be rewarded for their continuous and dedicated service to the government and should be granted an annuity at age 55. At present, federal employee pay levels are not competitive, health insurance coverage is lower than comparable private sector offerings, and other fringe benefits are being proposed for reduction. One of our grave concerns is that this situation, coupled with a retirement system which does not reward an employee for length of service, will induce a dramatic rate of turnover in the rank of mid-level management. There has to be some incentive for a federal employee to choose public service as a career and to stay with that career during their working years. If Congress decides to treat federal employment as just another career, then all pay and benefits should be competitive with the private sector in order to retain quality managers at the middle and senior grade levels. We think that retirement at 55 years of age with 30 years of service would provide an incentive for people who are committed to public service to stay, even though they might be able to gain more pecuniary benefits from private sector employment.

We are adamantly opposed to a COLA minus 2 or any other COLA reduction provision. As Social Security managers, we have seen the results of a lack of cost of living increases in benefits prior to Congress enacting that protection for elderly people. A 2 percent per year reduction in COLA protection for an individual retiring at either 55 or 60 could cause as much as 40 to 60 percent reduction in purchasing power within 15 years after retirement. It is in an annuitant's later years that they need the protection of COLA's because they have no alternative other than the annuities that they receive. They are often elderly or sick and unable to obtain meaningful employment to supplement the annuities they receive and thus are generally totally reliant on their retirement income. In the long run, the government would probably pay more in welfare and other benefits as a result of COLA reductions than they would save by a COLA minus 2 or some other partial COLA percentage formula.

With these modifications, we could support the proposed legislation. We would like very much to work with you, Mr. Chairman, and the members of the committee and staff in order to achieve passage of this legislation.

Thank you very much for the opportunity to testify, and we would be happy to answer any questions you might have.